

Seasonal Factor Adjustment

Seasonally adjusted estimates result by removing normal seasonal movement from the unadjusted data to bring out underlying trends and business cycles. Seasonal adjustment accounts for month-to-month variations resulting from normal or average changes in any phenomena affecting the data such as weather conditions, the differing lengths of months, and the varying number of weekdays and weekends within each month. It neither adjusts for abnormal conditions within each month, nor for year-to-year variations in weather. The relationship between unadjusted estimates and seasonally adjusted estimates can best be explained with the following scenario. Suppose the normal month-to-month change in an unadjusted series between February and March is 20 percent. Then an increase in the unadjusted series of less than 20 percent will be seen as a decrease in the seasonally adjusted series; an increase of exactly 20 percent will result in no change in the adjusted series; and an increase of more than 20 percent will be shown as an increase in the adjusted series.

An assumption underlying the seasonal adjustment process is that the original series can be separated into a seasonal component, a trend-cycle component, a trading day component, and an irregular component. The seasonally adjusted series consists of the trend-cycle and the irregular components taken together. The trend-cycle component includes the long-term and business cycle. The irregular component is made up of residual variations such as the sudden impact of political events, the effects of strikes, unusual weather conditions, reporting errors, and sampling errors. The trading-day component represents the effect due to the varying number of weekdays and weekends in each month. The seasonally adjusted monthly rate is found by dividing the unadjusted monthly estimate by its seasonal component and trading day components.

The seasonally adjusted annual rate is the seasonally adjusted monthly rate multiplied by 12. It is neither a forecast nor a projection. Rather it is a description of the annual rate at which construction is put in place in that particular month. Changes in the seasonally adjusted estimates may indicate changes in the trend or rate of construction put in place, but changes in the unadjusted estimates may be strictly due to seasonal variation. Seasonally adjusted annual rates facilitate comparisons with previous annual data, as well as with the seasonally adjusted annual rates for prior months.

The seasonally adjusted estimates or seasonal factors are obtained by running the unadjusted data through X-12-ARIMA. The X-12-ARIMA is a seasonal adjustment program developed at the U.S. Census Bureau. The program is based on the Bureau's earlier X-11 program and the X-11-ARIMA/88 program developed at Statistics Canada. Further information on X-12-ARIMA is available on the Internet at www.census.gov/srd/www/x12a/. Also, a list of frequently asked questions (FAQ) on seasonal adjustment may be seen at www.census.gov/const/www/faq2.html.

Each monthly series is run through the X-12-ARIMA program every month as new data become available. This procedure, known as concurrent seasonal adjustment, utilizes the current month estimate to calculate that month's seasonal adjustment factor. Several studies indicate that use of the most current data to estimate seasonal factors is generally effective; the seasonal factors are subject to less revision. Each composite monthly series was either seasonally adjusted directly or indirectly. Direct seasonal adjustment of a composite series consists of seasonally adjusting the sum of the component series. Indirect seasonal adjustment of a composite series consists of summing each seasonally adjusted component series. As the unadjusted data are revised, so are the seasonal factors. Thus, changes in seasonally adjusted estimates will not only reflect changes in the unadjusted data, but also changes to the seasonal factors. In addition, the seasonally adjusted data are revised back for 3 years each year with the release of May data.